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INFO AMEMBASSY ALGIERS
AMEMBASSY BEIRUT
AMCONSUL DHAHRAN
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
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C O N F I D E N T I A L TRIPOLI 132

LIMDIS

SUBJECT: POSTED PRICE NEGOTIATIONS

REFERENCE: TRIPOLI 54 Pet 14 Libya XR Pet 6 Libya

1. SUMMARY. POSTED PRICE ISSUE TO BE TABLED AS SCHEDULED, DESPITE APPOINTMENT NEW MINISTER PETROLEUM. TWO SIDES FAR APART IN THEIR APPROACH TO ISSUE, WITH BOTH AFFECTING AIR OF CONFIDENCE IN THEIR CASES. MINISTRY PETROLEUM CONTENDING OUTCOME OF NEGOTIATIONS WILL DETERMINE FUTURE LARG OIL POLICY, WITH ALTERNATIVES BEING HARMONIOUS COMPANY -- GOVERNMENT RELATIONS OR POLICY OF CONFRONTATION AND UNILATERAL NEW DEVELOPMENT OF OIL RESOURCES BY LARG. EMBASSY BELIEVES RCC MAY NOT PERMIT MINISTRY TO GO AS FAR AS IT WOULD LIKE, OUT OF RECOGNITION LIBYAN DEPENDENCE UPON PRESENT LEVEL OF OIL INCOME TO FINANCE SOCIAL WELFARE, ARMS PURCHASES AND SUPPORT FOR PALESTINE CAUSE. HOWEVER, TO MAINTAIN THEIR PRESENT POSITION, COMPANIES PROBABLY WILL HAVE TO MAKE SOME CONCESSIONS TO MORE CLOSELY ALIGN LIBYAN POSTINGS WITH OTHERS.

2. ATMOSPHERE OF CALM BORDERING ON FATALISM, AS POSTED

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PRICE NEGOTIATIONS APPROACH, WAS UNDISTURBED AT MINISTRY PETROLEUM BY APPOINTMENT IZZ AL-DIIN MABRUUK AS NEW MINPET. UMAR MUNTASIR, MINISTRY'S DIRGEN ECONOMIC AFFARIS AND HEAD OF POSTED PRICE COMMITTEE, EXPLAINED TO EMBOFF, JAN. 19, APPOINTMENT NEW MINISTER HAD BEEN ANTICIPATED. ACCORDING MUNTASIR, MINISTER WILL MAKE POLICY STATEMENT ON PRICE ISSUE AND PROPOSE NEGOTIATIONS AT GENERAL MEETING OF HEADS OF OPERATING COMPANIES AS SCHEDULED ON JAN. 20. MINISTER AND U/S QABLAAWI BOTH ARE EXPECTED TO ATTEND OAPEC MEETINGS IN KUWAIT WHILE COMMITTEE INITIATES BILATERAL NEGOTIATIONS WITH COMPANIES. MINISTRY OFFICIALS INSIST THESE ARE TO BE TECHNICAL TALKS UNRELATED TO LEGAL ISSUE OF MECHANISM FOR SETTING POSTED PRICES.

3. MINISTRY'S CASE FOR PRICE INCREASE BASED ON COMPARISON OF LIBYAN POSTINGS WITH THOSE FOR SELECTED CRUDES AT EASTERN MEDITERRANEAN AND PERSIAN GULF PORTS. MINISTRY APPEARS SATISFIED WITH ITS HOMEWORK, SOME OF WHICH PROBABLY WAS DONE BY CONSULTANTS. (SEE BEIRUT 471).

4. COMPANIES TAKE SHARPLY DIFFERENT VIEW OF COMING NEGOTIATIONS. THEY ARE PREPARING LEGAL DEFENSE OF PRESENT POSTINGS AS HAVING BEEN ESTABLISHED IN ACCORDANCE WITH ARTICLE 14(5) OF PETROLEUM LAW AND ARTICLE 14 OF REGULATION 6, WHICH AUTHORIZE COMPANIES TO ESTABLISH POSTINGS "BY REFERENCE TO FREE MARKET PRICES FOR INDIVIDUAL COMMERCIAL SALES OF FULL CARGOES" THROUGH PUBLIC NOTICE GIVEN IN PLATT'S OILGRAM. COMPANIES WILL ARGUE THAT MARKET PRICES HAVE DECLINED STEADILY, SINCE ORIGINAL LIBYAN POSTING ON THIS BASIS IN 1961, AND THEREFORE NO INCREASE IS JUSTIFIED.

5. TO SET STAGE FOR NEGOTIATIONS, U/S QABLAAWI INFORMALLY HAS DESCRIBED, TO COMPANY MANAGERS, RESOLUTION OF PRICE ISSUE AS PRIME DETERMINANT OF FUTURE LARG OIL POLICY. IN SIMILAR REMARKS TO EMBOFFS, QABLAAWI PORTRAYED MINISTRY, AND HIMSELF PERSONALLY, AS LINK BETWEEN COMPANIES AND LIBYAN INTERESTS, REPRESENTED BY RCC. IF NEGOTIATIONS RESULT IN SATISFACTORY INCREASE IN POSTINGS, HE WOULD HAVE JUSTIFICATION FOR ADVOCATING TO SKEPTICAL AND INEXPERIENCED RCC POLICY OF MODERATION AND CONTINUED EXPLOITATION OF LIBYA'S OIL THROUGH PRIVATE INDUSTRY. IF NEGOTIATIONS REACH IMPASSE,

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MINISTRY WOULD HAVE NO CHOICE BUT TO PURSUE HARSH POLICY OF EXCLUDING PRESENT CONCESSIONAIRES FROM NEW AREAS AND BRINGING THEM UNDER TIGHT CONTROL THROUGH SUCH MEANS AS RIGID ENFORCEMENT OF REGULATION 8 (FOR WHICH LARG OBTAINED SUPPORT AT RECENT OPEC MEETING) AND LABOR REGULATIONS. IN THIS EVENT, HE OBSERVED LIBYA WOULD ATTEMPT UNILATERAL DEVELOPMENT OF ITS RESOURCES THROUGH COLLABORATION WITH ALGERIANS AND POSSIBLY OTHERS. QABLAAWI NOTED MINISTRY HAS DEVELOPED POSITION ON POSTED PRICE LEVEL IT CONSIDERS JUSTIFIED, COMPARED WITH COMPETING CRUDES, BUT THAT IT INTENDS TO NEGOTIATE IN GOOD FAITH RATHER THAN ATTEMPTING TO IMPOSE ITS VIEW. HE EMPHASIZED MINISTRY HAS FIXED TARGET DATE FOR CONCLUSION PRICE NEGOTIATIONS AND WILL NOT ENDURE OBFUSCATORY TACTIC OF ENDLESS TECHNICAL AND LEGAL DISCUSSION.

6. ELEMENT MISSING FOR ASSESSMENT OF LIKELY OUTCOME IS KNOWLEDGE OF POSITION OF RCC. THERE IS NO REASON TO DOUBT RCC HAS AUTHORIZED MINISTRY TO PURSUE POSTED PRICE ISSUE. HOWEVER, THERE ARE INDICATIONS MINISTRY IS OPERATING UNDER SOME RESTRAINT. EMBASSY HAS HEARD FROM THIRD PARTIES MINISTRY HAS BEEN ENJOINED BY RCC TO AVOID ACTIONS WHICH WOULD INTERFERE WITH CONTINUED FLOW OF OIL AND REVENUE. SUCH INJUNCTION WOULD EXPLAIN WHY MINISTRY FAILED TO PURSUE CASE IT BEGAN PREPARING AGAINST OCCIDENTAL IN OCTOBER FOR TOO RAPID EXPLOITATION OF ITS ORIGINAL DISCOVERY AND FOR ALLEGED SHARP BUSINESS PRACTICES. ALSO, MINISTRY SUDDENLY DROPPED ITS EFFORT IN DECEMBER TO IMPOSE ENTIRE REGULATION 8 UNDER THREAT OF REVOKING CONCESSIONS OF RECALCITRANT COMPANIES (TRIPOLI 3615). SINGLE EXCEPTION, UNDER THIS THESIS, WOULD BE NULLIFICATION OF CHAPPAQUA CONCESSION, WHICH IS EXPLICABLE BY PUBLIC LINKING OF CHAPPAQUA TO SHALHIS.

7. COMMENT: WE BELIEVE IT POSSIBLE MINISTRY PETROLEUM "TECHNOCRATS" - A GENRE WITHOUT REAL POWER IN NEW REIME - MAY BE PLAYING DOUBLE GAME, BY CONVINCING RCC THAT NEW GOVERNMENT MUST SETTLE PRICE ISSUE, WHILE TELLING COMPANIES THAT RCC WILL TRIM THEIR SAILS IF SETTLEMENT IS NOT ACHIEVED. DANGER, OF COURSE, IS RCC, REGARDLESS OF ORIGINAL INTENT, MAY CONSIDER ITS PRESTIGE COMMITTED ONCE ISSUE IS JOINED - THUS GIVING EFFECT TO QABLAAWI'S ALTERNATIVES. IN ANY CASE, MINISTRY OFFICIALS HAVE PROSPECT OF BECOMING EITHER EMBATTLED OR CONQUERING HEROES.

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8. ISSUE WILL REQUIRE SENSITIVE HANDLING BY INDUSTRY LEADERS, WHO MAY NOT FEEL PARTICULAR STRESS BECAUSE OF PROSPECTIVE INCREASE IN NIGERIAN PRODUCTION AND LONGER-RUN OUTLOOK FOR RISING AVAILABILITIES FROM OTHER AREAS. HOWEVER, WE HOPE COMPANIES WILL RESIST ANY TEMPTATION TO TRY TO OBSCURE ISSUE OF COMPARATIVE PRICING OF LIBYAN CRUDE OR TO STAND ADAMANTLY ON POSITION THAT LARG POSTINGS ARE BOTH EQUITABLE AND IMMUTABLE. SITUATION SEEMS TO US AT THIS POINT TO BE ONE IN WHICH COMPANIES WOULD BE WELL ADVISED TO MOVE TOWARDS A FORMULA WHICH WOULD INCREASE RETURN TO LARG. WE SUGGEST THIS COURSE OF ACTIONWOULD CONTINUE RELATIVELY HIGH RATE OF RETURN ON PAST INVESTMENT AND PRESERVE OPPORTUNITIES FOR FURTHER U.S. PARTICIPATION IN DEVELOPMENT OF LIBYAN OIL INDUSTRY.
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